

## THE SOUTHLAND CORPORATION 1974 ANNUAL REPORT

CLEVELAND PUBLIC LIBRARY BUSINESS INF. BUR. CORPORATION FILE



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#### THE SOUTHLAND CORPORATION...

#### A FOOD RETAILER

Is the largest operator and franchisor of self-service convenience stores with 5,171 **7-ELEVEN** stores, 3,136 company operated and 2,035 franchised

Originated the convenience food store concept in 1927

Operates 209 other food stores, sandwich and candy shops

Has **7-ELEVEN** operations in 38 states, the District of Columbia, Canada, and Mexico

Owns 50% interest in two United Kingdom retail food operations with more than 1,000 outlets in England, Scotland, and Wales

Introduced the **7-ELEVEN** concept in Japan through an area licensee now operating 15 stores with more on the way

Operates an innovative, computerized distribution system from three regional centers which serve more than 2,600 **7-ELEVEN** stores

#### A PROCESSOR OF DAIRY PRODUCTS

Processes milk, ice cream, and related dairy products under 14 well-known regional brand names, with distribution in 29 states and the District of Columbia.

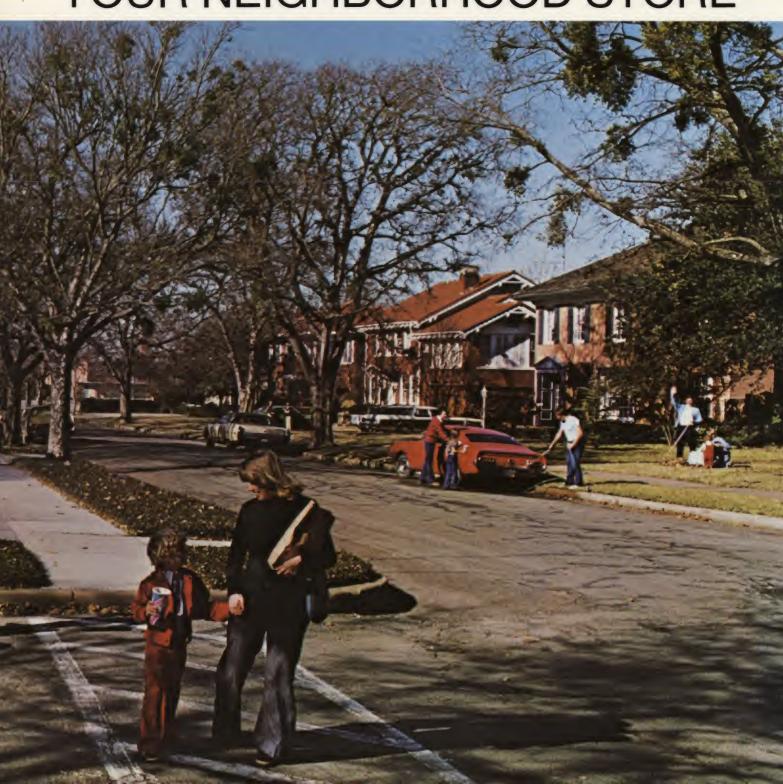
#### A MANUFACTURER

Manufactures and distributes fast food products, ice, fine candies, and specialty chemicals

#### A TRUCK LESSOR

Leases trucks to its own operations and to more than 1,000 other customers

## YOUR NEIGHBORHOOD STORE



#### **COMPARATIVE HIGHLIGHTS**

	YEAR ENDED DECE						
FOR THE YEAR	1974	1973	% Change				
Total Revenues	\$1,613,124,904	\$1,396,491,249	15.5				
Net Earnings	29,735,793	23,328,422	27.5				
Primary Earnings Per Share*	1.75	1.38	26.8				
Earnings Per Share—Assuming full dilution	1.66	1.32	25.8				
Cash Dividends	5,834,440	4,095,714	42.5				
AT YEAR-END							
Working Capital	89,760,168	95,972,572	(6.5)				
Current Ratio	1.78:1	1.96:1					
Long-Term Debt	105,609,159	107,495,757	(1.8)				
Shareholders' Equity	243,289,448	213,444,572	14.0				
Book Value Per Share*	14.31	12.64	13.2				
Annual Dividend Rate Per Share	.40	.30	33.3				
Average Shares Outstanding	17,003,346	16,887,443	.7				
Number of Shareholders	9,351	9,476	(1.3)				
Number of Employees	28,200	26,800	5.2				

<sup>\*</sup>Based on average number of shares outstanding during the period after adjusting for all stock dividends.

## TO OUR SHAREHOLDERS:



Revenues and earnings in 1974 were the greatest in the Company's 47-year history and represent impressive gains over the record highs of 1973. Highlight of the year was the opening of the 5,000th 7-Eleven store, marking the achievement of a long-time goal and establishing a new benchmark for the future.

Net earnings increased 27.5% on a 15.5% gain in consolidated revenues. The record \$29.7 million is almost double net earnings just five years ago. Revenues climbed to \$1.613 billion, an increase of \$217 million over 1973 revenues of \$1.396 billion.

The unprecedented economic contradictions of 1974 were unique, not only to Southland, but also to the entire business com-

munity. Government mandated price controls continued through the first four months, and the shift back to a competitive market was complicated by the dilemma and pressures of simultaneous inflation-recession. While these pressures, which still exist, affected 1974 operations, the Company's success can be attributed in large measure to aggressive and flexible management controls, a strong financial position, innovative merchandising, and a geographic spread of operations which cushions the effect of local conditions in certain areas.

7-Eleven store sales for the year were \$1.289 billion, a gain of 17.5% over 1973. The increase in revenues can be attributed largely to excellent gains in average sales per store, sustained growth in the number of stores, expansion of the fast foods program under the "Hot to Go" promotional theme, and the growing acceptance of convenience store shopping. At yearend, there were 5,171 7-Eleven stores in the United States and Canada, a net increase of 370 during the year. In addition, 240 convenience stores were under construction, and we are proceeding with 1975 expansion comparable to that of 1974.

The Dairies Group also had the best year in history, with sales up 16.3% and profits keeping pace. The gains were particularly

impressive in a year of consumer resistance to higher prices and all-time highs in the cost of farm milk. Through effective management, expenses were reduced to help offset the effect of industry conditions. The addition of major new customers and increased productivity made possible by plant expansions, modernization, and automation in 1973 and 1974 also contributed to the successful year.

Southland's Special Operations, which include candy, ice, and chemical manufacturing, truck leasing, and food processing centers, while still a small part of the Company's business, also showed excellent sales and profit gains.

Our confidence in Southland's future is reflected in 1974 capital expenditures of \$64.5 million, the second largest in the Company's history. Continuing our emphasis on expansion of convenience stores, Southland's principal business, investment in new 7-Eleven stores was \$40.6 million. Expenditures of \$7.2 million were for improvement and expansion of dairy facilities, the most important of which was construction of the all-new Embassy Dairies plant in Waldorf, Maryland. Scheduled for full-scale operation early in 1975, it is the finest, most modern, most completely automated milk plant in the United States. The remaining outlays



were for food processing centers, for doubling the warehouse space at the Orlando Distribution Center, and for ice, chemical, truck leasing, and other facilities.

We are delighted with the impressive progress made during the year by our Japanese area licensee, Ito-Yokado Co., Ltd., since the introduction of the 7-Eleven convenience store concept in that nation. The first store was opened in Tokyo in May, 1974, and fifteen stores are now in operation. Customer response has been excellent, and Ito-Yokado is continuing its aggressive store opening program.

As we forecast early in 1974, equity in earnings of affiliates was reduced, declining two cents per share. Inflationary pressures, economic uncertainties, and

government restrictions on profit margins continue to hold down earnings from the two retail operations in the United Kingdom.

The annual cash dividend rate was raised to 40 cents, a 33.3% increase following the 25% increase in 1973. In addition, for the ninth consecutive year, the Board of Directors declared a 3% stock dividend which was issued in November.

We remain confident that Southland will maintain its leadership in the convenience store business, the fastest growing segment of the retail food industry. While continuing to structure our management and financial resources to sustain planned growth, we are, nevertheless, intensifying our efforts toward reduction and control of expenses as we evaluate the effect of diverse and conflicting attempts to stabilize the national economy.

Although new and different challenges will undoubtedly be presented, a major part of the Company's strength is, as it always has been, the ability to perform in changing business environments, and we anticipate another successful year for Southland in 1975.

The excellent achievements of 1974 were made possible by the



dedication of the Company's employees and franchise store owners, the dependability of suppliers, the goodwill of customers, and your loyal support. To each of you, we extend our thanks.

JOHN P. THOMPSON Chairman

& Hosefeet

H.E. HARTFELDER Vice Chairman

JERE W. THOMPSON
President

March 17, 1975

# THE 5000TH 7-ELEVEN STORE

Heralding the opening of Southland's 5,000th 7-ELEVEN store, hundreds of customers and interested spectators joined Company officials, civic leaders, the mayor of Dallas, and members of the press at a celebration on August 9, 1974. As the festivities began, the new store was entirely concealed behind a storefront replica of the first Southland store, opened in 1927. The realistic set was authentic in every detail, including its point-of-sale signs on the front dock, advertising milk for 7¢ a quart, bread for 9¢ a loaf, and the "Special of the Day," fresh pears at 3¢ each. Rows of merchandise in boxes, cans, and glass jars were depicted on the shelves of the little "showcase" front window, nostalgically recalling memories of almost forgotten labels and sharply illustrating the adaptability and development of today's 7-ELEVEN convenience store.

John P. Thompson, Chairman, presided over the opening ceremonies at which the replica storefront was rolled aside to unveil the new store and a commemorative plaque permanently designating it the 5,000th **7-ELEVEN** store. Inside, visitors inspected the gleaming 2,400 square feet where more than 3,000 different items were attractively displayed. Glass doors sparkled across an









entire wall, inviting attention to the wide selection of refrigerated merchandise. Colorful photographs reached to the ceiling as tempting reminders of 7-ELEVEN's popular "Hot to Go" fast foods and beverages. Familiar brands of groceries, bakery goods, household products, health and beauty aids, candy, toys, novelties, necessities and "fun" items, as well as Southland's own distinctive private label products, filled convenient shelves, gondolas, and racks along the spacious aisles.

More than 86,000 customers shopped in the 5,000th store during its first months of operation. Their warm welcome of **7-ELEVEN** to the neighborhood is typical of the widespread acceptance of convenience shopping as an integral part of community life.

## ONE DAY'S HAPPENINGS

## 7:00 AM

Workers on their delivery routes, on their way to the office, factory, or returning home from the night shift, bought hot coffee, pastries, a morning newspaper, soft drinks, cigarettes . . .

Women came for the morning milk, eggs, cereal, bread . . .

Young children shopped for school and lunch supplies . . .

Between 7:00 and 11:00 AM, 17.6% of the day's customers shopped in the store.



## 11:00 AM

"Hot to Go" fast foods were popular as workers, students, and other customers of all ages took their turns at the microwave oven to fast-heat hamburgers, pizzas, meat pies, sandwiches...

Cold milk and soft drinks were selected from the vault . . .

Chips and snacks were added to the lunch selections . . .

19.9% of shoppers for the day made their purchases between 11:00 AM and 3:00 PM.



## 3:00 PM

After school, hungry and thirsty students purchased cold drinks, snacks, *Slurpees*, candy...

Adults shopped for products needed for evening meal preparation . . .

Shoppers, between 3:00 and 7:00 PM, represented 21% of the day's store traffic.



## 7:00 PM

In early evening hours, customers bought cigarettes, beer and wine, milk, soft drinks...

Working women needed money orders, pantyhose, drugs, cosmetics...

23.4% of those who visited the store made their purchases between 7:00 and 11:00 PM.



## 11:00 PM

Most frequently purchased items during the late evening hours were cigarettes, soft drinks, candy, cold beer, dairy products, snacks, and other items for immediate consumption . . .

12.4% of customers for the 24-hour period shopped between 11:00 PM and 3:00 AM.



## 3:00 AM

During early morning hours, adult males represented 82% of the store traffic . . .

Popular purchases were coffee, milk, candy, cigarettes, doughnuts, magazines...

Also in demand were aspirin, cold tablets, sleeping aids . . .

Early morning shoppers, between 3:00 and 7:00 AM, accounted for 5.7% of customers.



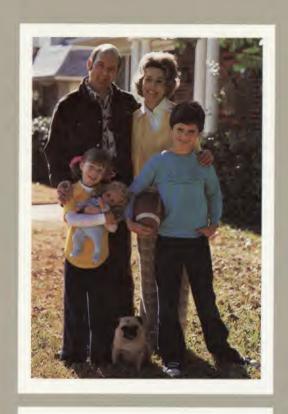




# BORHOOD STORE



#### PROFILE OF TYPICAL **7-ELEVEN** CUSTOMER



Male
Under 35 years
Married
Two Children
Lives less than 1 mile
from 7-ELEVEN
Earns more than \$10,000
a year
Shops in 7-ELEVEN 6.1
times per month
Spends \$6.16 per month
at 7-ELEVEN
Is in store 3½ minutes
per trip

Southland's market research department has compiled the statistics in this report from a cross-section of **7-ELEVEN** stores. Customer statistics on this page are based upon a 1974 composite study of regular, extended, and 24-hour stores. Such statistics are invaluable aids to management in selecting store sites, designing interior layouts, merchandising the stores, planning in-store promotions, and creating advertising programs.

#### WHO?

685,000,000 male customers 315,000,000 female customers

#### WHEN?

71.4% on weekdays 28.6% on weekends

19.1% — 7:00 AM to 11:00 AM 21.6% — 11:00 AM to 3:00 PM 24.9% — 3:00 PM to 7:00 PM 26.1% — 7:00 PM to 11:00 PM 5.7% — 11:00 PM to 3:00 AM 2.6% — 3:00 AM to 7:00 AM

#### HOW OLD?

8.8% under 12 16.4% 12-17 32.0% 18-24 21.0% 25-34 14.8% 35-49 7.0% 50 and over MORE THAN
ONE BILLION
CUSTOMERS
ANNUALLY
SHOP AT
7-ELEVEN
NORTH TO
SOUTH....
EAST TO
WEST....
IN 38 STATES,
THE DISTRICT
OF COLUMBIA,
MEXICO,
AND CANADA!

#### WHAT?

PERCENT CONVENIENCE STOR	E SALES (BY P	RINCIPAL	PRODUCT	CATEGOR	Y)
	1970	1971	1972	1973	1974
Groceries	18.7%	17.9%	18.2%	18.2%	17.1%
Tobacco Products	13.7	14.0	15.6	15.8	15.7
Beer/Wine	11.9	12.6	13.5	13.6	14.1
Non-Foods	11.7	11.3	10.7	11.4	12.0
Soft Drinks	11.2	11.2	11.2	10.8	11.6
Dairy Products	13.2	13.4	11.8	11.3	10.5
Baked Goods	5.8	6.1	6.0	5.9	5.9
Candy	5.0	4.9	4.9	4.8	5.3
Health/Beauty Aids	6.9	6.5	5.6	4.9	4.0
Other Food Items	1.9	2.1	2.5	3.3	3.8
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

#### SHOPPING 7-ELEVEN.... A SMART CHOICE

#### BECAUSE ...

- LOCATION
- SMALL PURCHASES
- CONSERVE GASOLINE

To about three million customers a day, **7-ELEVEN** means convenience. The store is near, shopping is fast, access is easy . . . and the need is now.

Our customers appreciate 7-ELEVEN 's unique service in bringing its stores to the people. Almost five decades ago, Southland, recognizing the public's desire for convenience, piomeered the concept that is today's 7-ELEVEN food store. Customers identify convenience as location in the neighborhood, where they work and where they live. To them, it means shopping seven days a week, 7 until 11, even longer, sometimes 24 hours a day. It means parking space just

a few steps from the door. It means open aisles, uncluttered shelves, merchandise arranged for speedy shopping, easy to see, easy to choose, easy to reach. To all that, **7-ELEVEN** adds fast check-out, warm greetings, friendly smiles, and such extra services as money orders and appliance rentals. The sum of these advantages equals the customers' definition of "convenience," a commodity well worth its price.

Most families make large volume grocery purchases in supermarkets or discount stores. The neighborhood convenience store serves their need for fill-in items, ones that were overlooked, needs not foreseen, staples unexpectedly depleted, perishables, light refreshments or items not available in supermarkets. Although they make frequent trips to 7-ELEVEN, their total annual purchases are only a small percentage of the family budget.

Grocery shoppers throughout the country are reducing their average number of trips to supermarkets and, correspondingly, increasing the number of small purchases at neighborhood stores. To them, the saving in gasoline exceeds the extra pennies spent. It is more than convenience. Their choice of **7-ELEVEN** is based upon a rational, dollars-and-cents decision.

Many customers walk to the neighborhood store. Others drive only short distances, knowing there will be ample parking and fast in-and-out service. Those who live near, or commute past one of the 502 stores which offer convenient, self-service gasoline, find a reliable source of fuel, usually available 24 hours a day.

Almost two-thirds of the average store's sales are to its neighbors, customers who live within a mile of the store, people who refer fondly to "my" **7-ELEVEN** store.

(left)
A good quarterback knows when to call time-out for Slurpees.

(right)
7-ELEVEN rescues Mother's
favorite scholar who almost
forgot the flowers for "her" day.









#### AND BECAUSE . . .

- TIME
- NECESSITY
- SAFETY
- EASE
- SIMPLICITY
- LATE HOURS

Convenience store shopping conserves time, and "time is money." Studies indicate that 65% of convenience store customers give "save time" as their reason for shopping in the store.

They save time traveling to and from the store. They save time by parking only 8 or 10 steps from the door. They save time because the store is seldom overcrowded, the high quality merchandise is easy to locate, the aisles are short, the service is fast, and they know their favorite brands will be in stock. They know because they have shopped at **7-ELEVEN** before and they will shop there again.

When the choice between a small purchase at a convenience store or at the supermarket means the difference between

being on time or late, convenience shopping becomes a wise investment. When the alternatives include taking the entire family out to eat or stopping for a "Hot to Go" meal to serve at home, convenience shopping is easier on the budget. When time is valuable, the quicker trip to 7-ELEVEN makes money sense.

There are days, too, when the logic of shopping at 7-ELEVEN is based simply upon necessity. When the family car is unavailable, customers walk to the neighborhood store. When there is sickness in the family, older children run errands to 7-ELEVEN. Mothers shop quickly at the convenience store, never losing sight of young children. Students bicycle there for cold drinks. candy, comic books, snacks, and school supplies. Men often choose to rely upon the wellknown brands of merchandise to avoid selection from the confusing array in giant stores. Most convenience store customers know an item may cost a few pennies more than in a discount store, but the dollar saving of time makes the trip a wise investment.

And late at night, when most other stores are dark, 3,036 bright, friendly **7-ELEVEN** stores are open 24 hours a day as comforting signs of life in their neighborhoods.

#### ... AND FUN!

Holidays, vacations, leisure-time hours, recreational activities, and family fun continue to become a larger part of the family "time-and-money" budget.

7-ELEVEN locations, products, friendliness, service, and convenience all appeal to America's insistence on plenty of time-out for fun. And approximately 45% of sales are in soft drinks, snack foods, beer, candy, ice cream, sandwiches, deli products, and other fun-time foods.

(left)
On the way to an important meeting, a one-minute stop for hairspray is a wise investment.

(right)
When there's a possibility of getting sleepy on the road, cautious drivers stop for a coffee break.









#### 7-ELEVEN **ADAPTING** TO THE TIMES

## 20's

A generation of flappers in the Roaring Twenties bobbed their hair. chewed gum, and danced the Charleston. All America laughed at Fibber McGee on the wireless, adored Mary Pickford and Douglas Fairbanks on the silver screen, and quoted Will Rogers. People everywhere talked about Lindbergh's landing in Paris, about Calvin Coolidge, Teapot Dome, Prohibition, the Stock Market crash, Charlie Chaplin . . .



And, in 1927, Southland Ice Company was founded. Customers of the twenty-one ice houses parked beside elevated wooden docks, where blocks of ice were loaded into horse-drawn wagons and buggies or tied to the running boards of Model-T's. One innovative manager provided additional service by stocking bread and milk for the convenience of his customers. Soon, his inventory also included eggs, crackers, detergents, and cold drinks. Thus, without fanfare, Southland introduced a new business, an original concept, the convenience food store.

## 30's

Depression hit hard in the thirties as jobs were scarce and breadlines long. America blamed Hoover, listened to Roosevelt's fireside chats, worried about banks closing, and took Shirley Temple to their hearts. Headline stories were the WPA, the new Social Security System, Bonnie and Clyde, the Hindenburg, the rising power of Hitler.

And Southland's "Tote'm Stores," many offering "curb service," created a new style in neighborhood shopping for staples, canned goods, ice cream salt, cookies, candy bars, and, in season, another innovation, "ice cold" watermelons. Although ice continued to be the major part of Southland's business, new convenience stores were opened and, in 1936, the Company entered the dairy business with its first milk processing plant, OAK FARMS DAIRIES in Dallas.



## 40's

The forties were a decade of war and rationing. Driving on recapped tires, customers mourned the death of FDR, laughed with Bob Hope, and soberly listened to news of the war. Conversation was about Yalta, Truman, sugar rationing, zoot suits, Joe DiMaggio, flagpole sitters, famine in China . . .

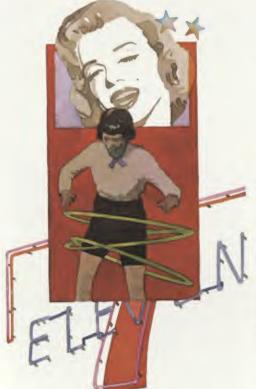


And Southland's stores adopted a new name, 7-ELEVEN. Frozen foods, fresh fruit and vegetables, health and beauty aids, charcoal, and picnic supplies were popular new items. The Company entered the ice cream business, marketed its first private label products, expanded dairy operations, and opened a few hardware stores. Two carpenters were employed full-time to oversee the building of all the new stores with their creative open-front design and hanging curtains to roll down when the sun hit the building fronts.

## 50's

The fifties were affluent years, dimming memories of depression and war, except for a disturbing involvement in Korea. The New York Yankees were heroes, and Eisenhower balanced the budget. Communism and the Cold War were threatening as people read about Sputnik, 707 jets, the Pumpkin Patch scandal, bomb shelters, and noticed a hole in Adlai Stevenson's shoe...

**7-ELEVEN** stores in Texas, Florida, and the greater Washington, D.C. area, had everything "from soup to nuts," including TV tubes, money orders, magazines, sunglasses, garden seed, shotgun shells, wine, postage stamps, hula-hoops, and keys "made while you wait." By the end of the decade, Southland operated 409 convenience stores, and, in keeping with the nation's rapid population growth, further expansion was planned.



## 60's

The leisure boom of the sixties brought crowded highways, a fad in lake houses, and all-night bowling alleys. The nation grieved, again, at the death of a President and watched in horror to see, on nationwide TV, the slaying of his alleged assassin. New words and phrases were "transistor," "hippie," "Apollo 11," "computer programing"...



**7-ELEVEN** closed the generation gap a bit through the introduction of *Slurpee*, the iced drink that became famous nationwide. The decade also brought standardization of store design, air conditioned stores, and more private label products, including bread and soft drinks. Hot coffee, cold sandwiches, and popcorn were popular new items in some stores. Floor polishers, rug shampooers, and TV's were available for rent. Motor oil was added, and, at some locations, self-service gasoline was available on the parking lots.

## 70's

Watergate became a national crisis, pollution a worldwide problem, and nostalgia a way to bear it. Americans are worried about shortages, depressed by inflation, and confused by simultaneous recession. Across the nation, people talk about ecology, fuel economy, the stock market, politics, football...

And 7-ELEVEN'S "Hot to Go" fast foods added new meaning to our concept of convenience shopping. Hand-dipped ice cream, bulk candy, post-mix soft drinks, bicycle accessories, and Southland's high quality private label products, including Sheerly Beloved hosiery, Sunny Seven juices, Super Seven charcoal, and Luvit paper products were welcomed additions to 7-ELEVEN's popular product lines. More exciting ideas and undreamed of products will be developed as changing times continue to offer Southland new challenges and greater opportunities.



# 7-ELEVEN .... ADAPTING TO THE LOCALE

The sign with "the big red 7 and the bright green Eleven" reminds customers everywhere of convenience. The theme is the same from Washington to Florida, Massachusetts to California, Canada to Mexico. Each 7-ELEVEN store, however, has its own personality, its individual message, that has evolved with the tastes, desires, and preferences of its fans. Different places, different choices, for different people.

#### **NEIGHBORHOOD**

Just as neighborhood environments differ, **7-ELEVEN** 's products and services are varied to blend with the community and feel "at home" to the neighbors. One store, adjacent to a luxurious retirement community, displays a large rack of colorful knitting yarns. In the refrigerated vault of another store, near an elementary school, an apple, sandwich, and cold drink are grouped together for fast lunch planning.



#### CLIMATE

Snow drifts around a **7-ELEVEN** store guarantee colorful knitted caps, snow shovels, and warm mittens inside. At the same time, in a warmer place, the sun shines on displays of straw hats, garden hose, picnic supplies, *Super Seven* charcoal, or, in humid climates, rain hats and umbrellas.



#### **GEOGRAPHY**

Florida and California **7-ELEVEN** stores do a brisk business in sunglasses, beach balls, and children's sand buckets. Mountain stores feature back-packing supplies and ski goggles. Those near fishing spots sell tackle. Tamales are favorite snacks on both sides of the Mexican border, while Canadians prefer a wide choice of bulk cheeses.



#### SEASON

Featured **7-ELEVEN** displays are as reliable as calendars to foretell the seasons. To many customers, shopping at **7-ELEVEN** for the Christmas tree is a family tradition. The neighborhood store also furnishes the Halloween mask, Thanksgiving pumpkin, Mother's Day flowers, Easter eggs, shotgun shells in hunting season, and school supplies for that important First Day.







## 7-ELEVEN NORTH TO SOUTH...EAST TO WEST...





#### SOUTHLAND DISTRIBUTION CENTERS

Southland, during the past three years, has developed a system of merchandise distribution designed to serve the special requirements of its 7-ELEVEN stores. The system provides a heretofore unavailable means for purchasing merchandise in less than case lots, thus assuring fresher merchandise on the shelves, faster turnover, and a more manageable inventory. The results are a reliable and efficient source of supply, deliveries to stores in exact quantities needed, high store instock position, more productive use of selling space, and improved store profitability.

In the first full year of operation, sales volume of the three centers, which is not included in corporate revenues, exceeded \$200 million, and the system made a significant contribution to profits.

The regional centers in Orlando, Florida; Fredericksburg, Virginia; and Tyler, Texas, distribute to more than 2,600 stores. Approximately half of the stores' merchandise purchases are for the 2,300 items carried in the

centers. The unique system provides a day-by-day warehouse inventory, by item, value, and location. During the year, the centers had a 99% fill-rate of orders processed while turning their inventories an average of 28 times.

Merchandise orders are prepared from shelf-sequenced lists, customized monthly for each store. All that is needed to trigger each store's order is a glance at the shelves and a quick checkmark. Orders are promptly submitted to 110 District Offices where they are transmitted through computer terminals to the corporate data center.

From the information transmitted, the computer processes picking lists, determines loading sequence and delivery routes designed to conserve fuel, and schedules times of dispatch and return. The information is then relayed to high-speed printers in the Distribution Centers where the orders are filled. Picking lists are sequenced according to flow racks in various locations within the warehouse, and the prepriced merchandise is placed into convenient "tote-boxes," which are moved by computer-controlled conveyors to order assembly points. The "tote-boxes," designed to nest efficiently and occupy minimum storage space, are organized according to merchandise layout in the store. The completed store order is then strapped onto portable carts for loading and delivery. This highly sophisticated system minimizes the risk of error and the time required to process and deliver each individual order. The system also provides for initial stocking of new stores, seasonal items, special events, and other unusual requirements, and for automatic adjustments to a store's order quantities based upon actual sales experience.

A series of detailed reports are provided for use by all levels of management in analyzing, controlling, and forecasting merchandise needs and trends.

NUMBER OF STORES SERVED						
Florida SDC	734					
Texas SDC	879					
Virginia SDC	1,010					
TOTAL	2,623					

51.6% of U.S. 7-ELEVEN stores

The three Southland Distribution Centers provide 7-ELEVEN stores in 14 states with approximately 50% of their merchandise. The Center in Fredericksburg, Virginia (top) delivers to stores in Virginia, Maryland, District of Columbia, Delaware, and parts of North Carolina, Pennsylvania, New Jersey, and West Virginia.
The Tyler, Texas Center
(middle) serves stores in parts
of Texas, Arkansas, Tennessee,
Mississippi, and Louisiana.
From the Orlando, Florida
Center, (bottom) most stores in
Florida and Georgia receive
merchandise.



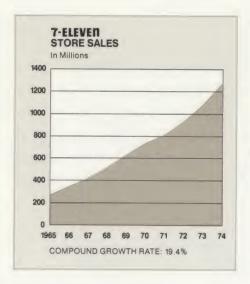
#### SOUTHLAND REACHING OUT....

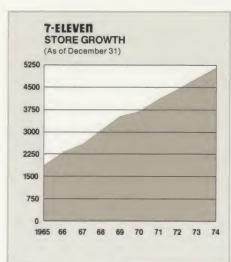
#### USA CANADA MEXICO

Sales of the Stores Group, including **7-ELEVEN**, GRISTEDE'S and CHARLES & Co., and BARRICINI, climbed to \$1.402 billion, compared with \$1.215 billion the previous year, an increase of 15.4%, and represented 87% of corporate revenues.

Although the economy influenced the sales increase, inflation has had less impact on sales growth of convenience stores than of the retail food industry in general. Gains in individual store volume, opening of new stores, expansion of the "Hot to Go" fast foods program, and more efficient use of selling space contributed substantially to the sales increase.

Changes in life patterns and family styles have also influenced the annual gain in convenience stores' share of total United States grocery sales. In 1965, according to industry sources, convenience store sales represented 1.1% of total grocery volume. By the end of 1973, the figure had increased to 3.8%, and the trend is expected to continue as additional convenience stores are built and new market areas developed. Increased leisure-time hours now allow more time for





#### STORE EXPANSION SUMMARY

	Opened	Closed	End of Year
Convenience Stores			
United States	495	142	5,079
Canada	17	_	92
Mexico	_	_	4
Total	512	142	5,175
Gristede's and Charles & Co.	7	3	131
Bradshaws	_	3	_
Barricini	-	32	78
TOTAL	519	180	5,384



family fun, when people enjoy cold drinks, beer, snack foods, sandwiches, and candy, which are a significant percentage of convenience store sales. As the number of working women with less time to devote to grocery shopping increases, the demand for fast fill-in purchases at convenience stores will continue to grow.

The size and scope of our operations and the yearly addition of new stores require periodic re-strengthening of management and adjustment of the organizational structure. A typical 7-ELEVEN division consists of a Division Manager, four Zone Managers, twelve District Managers, and forty-eight Supervisors or Field Representatives who oversee operations of approximately 325 convenience stores. This management structure is effective in controlling operations while providing a fertile training ground for future management which is essential to Southland's growth.

Sales of the **7-ELEVEN** stores alone increased \$192 million to \$1.289 billion, a gain of 17.5% over 1973 sales of \$1.097 billion.

The 512 new **7-ELEVEN** stores opened during the year brought the total number to 5,175, including 92 stores in three provinces of Canada and four SUPER SIETE stores in Mexico. At year-

Southland's T-ELEVEN store operations in 38 states, the District of Columbia, and three provinces of Canada are divided into 4 Regions, 16 Divisions, 54 Zones, and 191 Districts. Four stores in Mexico operate under the name Super Siete.



In parts of 11 states and in Japan, stores are operated or franchised by area licensees.

end, 3,036 of the stores operated twenty-four hours a day, and an additional 594 were open longer than the traditional 7 to 11. The new stores were built primarily in established operating areas, with fifteen stores opened in eastern lowa, a new market entered during the year. Because of population shifts, changes in local economic conditions and traffic patterns in some areas, as well as expiration of leases, 142 convenience stores were closed.

An additional 129 stores in the United States operate under area licenses, using the **7-ELEVEN** system, image, and name. Sales of these stores are not included in Southland's revenues.

The GRISTEDE'S and CHARLES & Co. stores also reported excellent sales gains as they continued their tradition of providing convenient grocery shopping and service to customers in the greater New York City area. Seven new GRISTEDE's and CHARLES & Co. stores were opened and three closed or disposed of. bringing the year-end total to 131. In addition, 32 BARRICINI candy shops were closed or disposed of, as well as the three remaining Bradshaws supermarkets in southern California.

Canadian **7-ELEVEN** stores almost duplicate those in this country with minor differences in architecture and products. Entrance to most of the stores is through storm doors to protect customers and employees from the cold. Microwave ovens are provided, and hot and cold sandwiches, as well as salads, are served. Customers also select from a wide variety of sausages and bulk cheeses.

The SUPER SIETE stores in Mexico provide space for leisurely snacking on the premises. From pass-through windows, customers are served hot and cold sandwiches, coffee, cold drinks, fried chicken, and hot Mexican foods.

#### SOUTHLAND INTERNATIONAL

#### **JAPAN**

Under the Japanese area license, fifteen **7-ELEVEN** stores were operating at year-end. The first Tokyo store opened in May, 1974, followed by an additional nine by the end of November, and five more opened during December. Sales volume has been excellent, exceeding estimates and indicating enthusiastic reception of the **7-ELEVEN** shopping concept. The stores are open from 7:00 AM to 11:00 PM, seven days a week.

Although the exterior appearance and interior layout of the stores are similar to those in this country, the average selling space is much smaller, ranging from 800 to 2,100 square feet. Because of high concentration of population within the shopping areas of the Japanese stores, only 25% of shoppers on a typical day come by automobile, 12% bicycle, and the remaining 63% walk. Housewives, many of whom live within a few hundred yards of the stores, often make several trips each day, purchasing items for only one meal per trip. A large majority of the customers are young adults, 20 to 30 years of age. Daytime shoppers are predominately females, while more males shop during evening and nighttime hours.



American visitors feel at home in the Japanese stores where they receive the customary friendly 7-ELEVEN service from personnel wearing the familiar orange or red smocks. Merchandise, too, is typically 7-ELEVEN, including "Hot to Go" fast foods, Slurpees, soft drinks, candy, ice cream, cereals, dairy products, canned goods, detergents, and novelties, many of them carrying familiar American labels. One major difference is in the larger quantities and variety of fresh produce, including assortments of vegetables, fruits, leeks, and lotus roots. The stores also sell fresh meat, fish. and varieties of seaweed.

#### U.K.

Southland's affiliates in the United Kingdom continued to operate under rigid governmental regulations and in a highly inflationary economy.

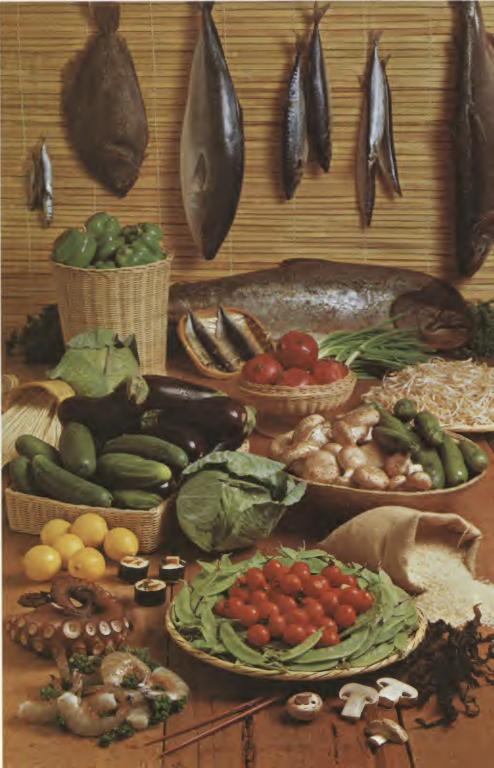
The group of 375 Confectionery, Tobacco, News (CTN) shops, operating throughout England and Scotland, added a net of 8 new units and completely remodeled 31. Most of the stores. which formerly operated under a variety of names, have now been converted to the highly respected R.S. McColl trade name. The addition of new, higher margin items such as toys, games, books, and records should improve gross profit. Several new, larger units may be opened on a test basis during 1975, each having a sales area of approximately 2,000 to 3,000 square feet.

WRIGHT'S and MOORES operate 660 retail grocery outlets in England, Scotland, and Wales under various trade names. In Scotland, where the stores are known by the strong Hay & Co. name, 49 units were remodeled and 13 new "Wine and Spirit" departments were opened. Expansion plans for new and larger store units will be formulated when retailing in the United Kingdom returns to more normal conditions.

The stores in Japan sell many typical T-ELEVEN products as well as a variety of fresh fish, boiled octopus, dried fish, squid, seaweed, duck eggs, fresh meat, Japanese noodles, bean

paste, snow peas, bean sprouts, produce, tropical fruits, pomegranates, tea blends, and Sushi rolls of seaweed with rice, fish, and vegetables.



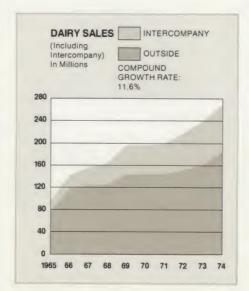


#### DAIRIES GROUP

Dairy sales and profits were the highest in the Company's history. Total sales were \$269.9 million, including intercompany sales of \$86.1 million, an increase of 12.9% over 1973. Sales to outside customers rose 16.3% and accounted for 11% of corporate revenues while intercompany sales, not included in corporate revenues, increased 6.3%. The dairies, which serve 7-ELEVEN stores within their operating areas, supplied approximately 70% of the dairy products sold in all 7-ELEVEN stores.

Effective operating control by a strong management team reduced expenses, resulting in an improved profit return on sales. A substantial portion of the profit gain resulted also from increased productivity, made possible by major expansion and modernization of facilities during 1973 and 1974. In addition, deliveries were rescheduled and reduced to conserve fuel and offset its increased cost. Although inflation was a factor, aggressive marketing and the addition of major, new customers contributed to the excellent sales gains.





A new Embassy plant in Waldorf, Maryland, is scheduled to open in April, 1975. Located on a picturesque 27-acre site, the facility will have the capacity to process 100,000 gallons of milk a day to serve customers throughout the Washington, D.C., Maryland, and Virginia areas. The highly automated plant, with the newest and finest processing and packaging equipment, will be the most modern in the United States. The entire processing function is accurately controlled by computer. including the receipt of raw milk in tanker trucks, its transfer to holding tanks in the plant, the separation, blending, homogenization, pasteurization, filling, and final transfer to refrigerated storage.

The Specialty Foods Division plant in Sulphur Springs, Texas, was enlarged to increase capacity for processing yogurt and long-life, ultra-pasteurized cream. The division also introduced individual 7-ounce servings of orange, grapefruit, and apple juices, which are marketed to outside customers under the Farm Field label and distributed to 7-ELEVEN stores under the Sunny Seven label. The division

Southland's broad line of highly respected dairy products are marketed under the regional names, Adohr Farms, Bancroft, Bluff View Farms,

BRIGGS, CABELL'S, COOPER FARMS, EMBASSY, HARBISONS, HORTENS, MIDWEST FARMS, OAK FARMS, SPRECKELS, VELDA FARMS, AND WANZER'S.





(map above)
From 30 processing plants,
Southland's dairies serve
customers in 29 states and the
District of Columbia.

also produces eggnog, dips, toppings, the *Smiley's* sandwich ingredients used by Southland's Food Centers for the "Hot to Go" fast foods program, and the *Farm Field* meat, vegetable, and fruit salads. These products are distributed through five of the Company's dairy divisions and to other retailers and institutions.

Expansion and modernization will continue in 1975 as a new MIDWEST FARMS milk and ice cream distributing facility is opened in Jackson, Tennessee, and the OAK FARMS milk plant in Houston is enlarged.

The new Embassy plant in Waldorf, Maryland, is the first all new dairy processing facility built by Southland since 1969. With a daily milk processing capacity of approximately 100,000 gallons, the plant will serve customers throughout the Washington, D.C., Maryland, and Virginia areas.

#### DISTRIBUTION OF DAIRY SALES

	ERS

TOTAL

CUSTOMERS					
	1970	1971	1972	1973	1974
Wholesale	42%	44%	48%	49%	54%
Intercompany	27	32	33	34	32
Distributors and Others	23	20	16	14	12
Home Deliveries	8	4	3	3	2
TOTAL	100%	100%	100%	100%	100%
PRODUCTS					
	1970	1971	1972	1973	1974
Milk, cottage cheese and other food items	84%	84%	84%	86%	86%
Ice cream and related products	16	16	16	14	14

100%

100%

100%

100%

100%



## SPECIAL OPERATIONS

Southland's diversified businesses serve the Company's other operations and also sell to outside customers. Their sales increased 26% to \$51.2 million, including \$28 million intercompany sales which are not included in corporate revenues. Sales to outside customers represented 2% of Southland's total revenues.

#### REDDY ICE

REDDY ICE, Southland's first business, had excellent sales and earnings gains for the year, with 35.1% of its sales through more than 1.200 7-ELEVEN stores in seven states. Capacity was increased in the Ft. Lauderdale, Florida and Las Vegas, Nevada facilities, two of the eight REDDY ICE manufacturing plants. The Las Vegas plant was also remodeled, and additional expansion of capacity is planned for 1975. Ground will be broken soon at a 3.99-acre site in Houston for a new, fully automated plant which will be one of the most modern in the world. The 30,000 square feet plant will have a daily capacity of 220 tons. The division has recently introduced an innovative marketing concept using coin machines to vend processed ice in 3-lb. plastic bags. The units are installed, filled, and maintained by REDDY ICE.

#### **HUDGINS**

HUDGINS TRUCK RENTAL, Which leases over-the-road transportation equipment, realized a 23% increase in revenues principally from rentals to other Southland operations. Twelve maintenance garages in Texas, Florida, Missouri, Virginia, and Louisiana, including facilities at Southland's three regional Distribution Centers, are operated by the division. A combination truck make-ready, engine-rebuild, and mechanic training facility in Fort Worth was completed during the year, and garages were opened in Temple, Texas, and New Iberia, Louisiana. Sales to outside customers accounted for 68% of total revenues.

#### CHEMICAL

Southland's Chemical Division. in operation less than 10 years, manufactures and distributes cleansing and sanitizing agents, industrial coatings, basic chemical components, rubber compounds, and other specialty chemical products and food additives and preservatives under the Southland label. The division also manufactures Slurpee flavor concentrates as well as other fountain syrups under the brand name Cre-Mel. Approximately 56% of sales were to outside customers throughout the United States, Mexico, Puerto Rico, and the Virgin Islands.

#### BARRICINI

BARRICINI manufactures and distributes at wholesale fine chocolates and other quality candies under the well-known *Barricini* and *Loft's* labels. The division markets a broad line of candies through approximately 4,250 drug and department stores, gift and card shops, supermarkets, military post exchanges, and other outlets in 45 states, the District of Columbia, and Puerto Rico. Sales to outside customers during 1974 increased to approximately 56% of total sales.

#### FOOD CENTERS

Southland's Food Processing Centers, located at each of the three Distribution Centers, produce a high quality line of sandwiches marketed under the Smilev's label. The centers prepare 14 varieties of sandwiches, including Cheeseburger, Hamburger, Chili Dog, Egg Hamlette, Hot Link, BBQ Beef, Sausage & Biscuit, Hoagie, Hot Dog, and a variety of meat and cheese salads. Slurpee syrup, another product of the Food Centers, is prepared from flavor concentrates manufactured by Southland's Chemical Division. Food Center products undergo rigid quality control test procedures in the Company's laboratories.

In addition to the *Smiley's* sandwiches provided for the **7-ELEVEN** stores' "Hot to Go" fast foods program, 5% of sales were to outside customers.



## Save A Living Thing

The American bald eagle, our country's national symbol, now has a permanent sanctuary on the Missouri River in South Dakota and Nebraska, due to Southland's "Save A Living Thing" campaign, conducted in cooperation with the National Wildlife Federation. The nationwide program, launched in August, 1974, also helped educate the public on other endangered species of wildlife and enlisted aid of individual citizens in their preservation.

More than 20 million Slurpees were sold in special wildlife souvenir 'Tradin' Cups,' each featuring a picture and brief description of one of 60 endangered species of animals, birds, or fish. Supported by national public service radio and television programs sponsored by the Federation, the campaign immediately caught the attention of both young and old who, recognizing its educational and ecological benefits, joined in the excitement

of collecting the complete 60-cup series. National magazines, networks, and wireservices supported 7-ELEVEN's extensive advertising to publicize the program. Local civic and social groups, amusement parks, zoos, and individual citizens joined in the promotion. 7-ELEVEN employees and franchise owners sponsored contests, films, booths at fairs, posters, skydivers, and sports events to help boost the campaign. Throughout the nation, 7-ELEVEN stores served as collection points for cash contributions, and public announcements encouraged mail-in donations.

One cent from the sale of each Slurpee in a wildlife cup was pledged to the campaign. The company advanced \$200,000 to the Federation to purchase the 1,123-acre site near Pickton, South Dakota, a favorite winter nesting grounds of the rapidly diminishing eagle species, where tall cottonwood trees offer roosting places and the river provides abundant food. The trees also shelter the whitetail deer, bobwhite quail, cottontail rabbit, wild turkey, fox, coyote, opossum, raccoon, bobcat, muskrat, mink, beaver, prairie chicken, mallard, and Canadian geese.

On December 19, representatives of Southland and the Federation closed the campaign with a special ceremony in Washington, D.C., where the deed to the property was accepted by the Department of Interior which, in turn, designated it a part of the National Wildlife Refuge System.



Public contributions will be used by the Federation to finance bald eagle research projects.



#### SOUTHLAND A GOOD NEIGHBOR

Just as the product selection of each 7-ELEVEN store is tailored to the specific and individual needs of the small neighborhood it serves, the money and time devoted to public service by employees and franchise owners of Southland are directed toward the overall improvement and enrichment of the life in each "hometown" community. A sense of social accountability is demonstrated each year by participation of all areas of the company in hundreds of charitable drives, scholarship funds, youth activities, and by frequent use of stores as emergency collection points for disaster relief activities of all kinds.

One area cooperated with the American Legion in distributing free literature for its flag etiquette program. Another participated in a "Cans for Life" program by collecting recycleable aluminum cans, proceeds from the sale of which were used to purchase a kidney dialysis machine for the Artificial Kidney Foundation. Another group contributed to a better informed electorate through distribution of sample ballots and information on voting procedures.

Company operations in Miami, for the second year, sponsored a "Parade of the Three Kings," a celebration of the 12th Day of Christmas, now banned in Cuba but revered by almost 400,000 former Cuban nationals who live and work in the area.

In Chicago, Southland employees and franchise owners joined with city officials, the Marine Corps Band, television and motion picture personalities. and U.S. Marine Corps Reserve officials in a Thanksgiving Day parade to kick off the annual "Toys for Tots" campaign. More than one-half million toys were collected at 7-ELEVEN stores to brighten Christmas for needy children. Several other areas cooperate traditionally with the Marine Corps Reserve in acting as Santa Claus for neighborhood children

Company operations in the mid-Atlantic area were accorded special recognition for cooperation in providing job opportunities for unemployed and underemployed persons trained by the Southern New Jersey Opportunities Industrialization Center. Stores in the Denver area assisted in collecting balls, bats, and other sporting goods to replace fire-destroyed equipment belonging to the Denver Police League and used in activities for 4,000 youngsters.

VELDA FARMS, always the leader in sponsoring sport promotions, encourages young people to participate in athletic programs by presenting their "Golden V" high school athletic awards to outstanding young men and women. In New York, the Gristed's stores participate in a one-day-per-week discount on selected items purchased by senior citizens.

Southland not only practices corporate good citizenship but also encourages employees to take active parts in local civic and charitable programs. The Company provides a payroll deduction program on a voluntary basis to encourage participation in local community endeavors. Employee contributions committees in each area select the recipients in their communities. Hundreds of additional, individual contributions are made each year, pointing, again, to the fact that whenever, wherever there is a need or an opportunity for service, members of the "Southland family" can be counted among the volunteers.

## SHAREHOLDER INFORMATION

## BOARD OF DIRECTORS

#### **OFFICERS**

#### **SECURITIES TRADED:**

**COMMON STOCK** 

New York Stock Exchange
5% Convertible Subordinated
Debentures

Luxembourg Stock Exchange

#### STOCK TRANSFER AGENTS:

The Chase Manhattan Bank, N.A. New York City First National Bank in Dallas Dallas, Texas

#### STOCK REGISTRARS:

First National City Bank New York City Texas Bank & Trust Company of Dallas Dallas, Texas

#### ANNUAL MEETING:

The Annual Meeting of the Company will be held at 10 a.m., Wednesday, April 23, 1975, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

#### FORM 10-K:

Shareholders may obtain without charge a copy of the Company's 1974 Form 10–K. A copy of any exhibit filed with the Securities and Exchange Commission in connection with the 1974 Form 10–K will be furnished upon receipt of payment of a fee of 20¢ per page, plus postage. Written request should be addressed to Mr. W. K. Ruppenkamp, Vice President, Financial Relations, at the Company's mailing address.

#### **MAILING ADDRESS:**

P.O. Box 719, Dallas, Texas 75221

#### **TELEPHONE:**

214/828-7011 (CENTREX)

JOHN P. THOMPSON Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
Vice Chairman of the Board

JERE W. THOMPSON President

WEBSTER ATWELL of Counsel, Atwell, Cain & Davenport

J. Y. BALLARD
Independent Consulting Engineer

WALTON GRAYSON, III Executive Vice President

W. W. OVERTON, JR. Investments

CLIFFORD W. WHEELER Vice President

JOHN P. THOMPSON Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER Vice Chairman of the Board

JERE W. THOMPSON President

WALTON GRAYSON, III
Executive Vice President,
Administration and Services

JOSEPH S. HARDIN Executive Vice President, Planning and Special Operations

M. T. COCHRAN, JR. Vice President, Dairy Operations

S. R. DOLE Vice President, Company Franchised Convenience Stores

VAUGHN R. HEADY Vice President, Company Convenience Stores

FORREST STOUT Vice President, Southern Stores Region

CLIFFORD W. WHEELER Vice President, New Areas

CLARK J. MATTHEWS, II Vice President, General Counsel

W. K. RUPPENKAMP Vice President, Financial Relations

R. G. SMITH Secretary and Treasurer

P. EUGENE PENDER Controller



## TEN YEARS OF GROWTH The Southland Corporation and Subsidiaries

Inorations					
Departions  Total revenues	\$ 365,166 21.23% 5,237 32.01% 1.43%	\$ 480,571 31.60% 6,105 16.57% 1.27%	\$ 563,540 17.26% 7,695 26.04% 1.37%	\$ 665,764 18.14% 9,862 28.16% 1.48%	\$ 874,220 31.31% 12,436 26.10% 1.42%
Return on beginning shareholders' equity	23.11%	21.14%	22.68%	23.69%	15.32%
Ssets Employed Working capital Property, plant, and	33,277	41,588	41,537	56,906	76,487
equipment (net) Depreciation provision	27,390 2,225	47,620 2,763	68,481 5,033	96,607 7,343	132,494 11,616
Capitalization  Long-term debt	30,976 28,880	52,527 33,931	63,512 41,630	63,887 81,170	97,913 99,546
Per Share Data (Note 3) Primary earnings Fully diluted earnings Cash dividends Shareholders' equity	.48 .46 .10 2.63	.55 .51 .11 3.04	.68 .63 .12 3.70	.78 .71 .12 6.43	.89 .80 .13 7.09
Other Data Stock dividends	2%	3%	3%	3% 3-for-2	3%
Average primary shares outstanding Average diluted shares		11,169,079 12,442,850	11,252,691 12,757,158	12,628,206 14,806,523	14,036,252 17,251,480
Number of shareholders. Number of employees	1,228 11,300	2,111 12,800	2,816 13,900	7,457 16,900	8,079 19,500
Dollars in thousands except per s	hare data)				

Notes:

- (1) Includes The Southland
  Corporation and subsidiaries.
  Data for businesses acquired
  under the poolings of interest
  concept have been included for
  years prior to their acquisition by
  The Southland Corporation.
- (2) Net earnings before extraordinary items of \$520,000 (addition) in 1967, \$380,914 (addition) in 1969, and \$496,836 (addition) in 1971.
- (3) Calculations of per share information are based upon the average number of shares outstanding during the respective years after giving effect to subsequent stock dividends, stock splits, and shares issued in exchange for businesses acquired under the poolings of interest concept.

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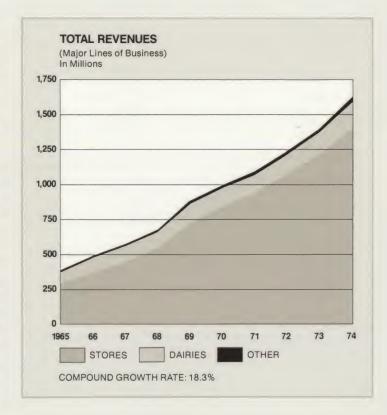
10 Year Compound					
Growth	1974	1973	1972	1971	1970
18.27%	\$ 1,613,125 15.51%	\$ 1,396,491 13.69%	\$ 1,228,350 13.20%	\$ 1,085,107 9.99%	\$ 986,580 12.85%
22.32%	29,736	23,328	20,366	17,300	14,895
	27.47% 1.84%	14.55% 1.67%	17.72% 1.66%	16.15% 1.59%	19.77% 1.51%
	13.93%	12.01%	14.85%	15.27%	14.96%
	89,760	95,973	107,912	83,689	79,856
	253,864 25,250	219,262 21,543	165,270 17,862	155,688 16,247	143,610 15,009
26.79%	105,609 243,289	107,496 213,445	82,043 194,202	95,192 137,132	97,299 113,285
16.81%	1.75	1.38	1.24	1.19	1.05
16.20%	1.66	1.32	1.17	1.08	.93
21.10%	.34 14.31	.24 12.64	.21 11.85	.17 9.45	.13 7.95
	3%	3%	3%	3% 3-for-2	3%
	17,003,346 18,529,165	16,887,443 18,533,452	16,383,531 18,058,835	14,511,218 17,664,786	14,253,251 17,679,112
	9,351 28,200	9,476 26,800	9,418 24,100	8,866 21,500	8,249 18,900

### REVENUES

A 15.5% gain in revenues, the greatest for any year since 1969, was the result of continued internal growth in all major lines of business. Consolidated revenues reached a record \$1.613 billion, up \$217 million over 1973's \$1.396 billion. Continued acceptance of convenience store shopping and the net addition of 370 7–Eleven stores contributed significantly to the record revenues, although inflation also influenced the results. Stores Group sales rose 15.4% while the Dairies Group increased sales 16.3%, and Special Operations showed gains of 11.4% over 1973.

NET REVENUES (Millions)					
QUARTER		1974		1973	% Gain
First	\$	354.9	\$	303.0	17.1
Second		413.7		351.8	17.6
Third		434.8		374.1	16.2
Fourth		409.7		367.6	11.5
TOTAL	\$1	,613.1	\$1	,396.5	15.5

The Stores Group contributed 87% of total corporate revenues with the Dairies Group accounting for 11% and 2% from Special Operations and other income.



### **NET EARNINGS**

Consolidated net earnings for the year also reached a new high of \$29.7 million, up \$6.4 million from 1973 earnings of \$23.3 million. The 27.5% increase was accomplished in a year of unprecedented economic uncertainties, including government mandated price controls during the first four months of 1974, and the subsequent pressures of simultaneous inflation-recession.

Net earnings reflect provision for state and federal income taxes at an annual rate of 49.6% for 1974 and 49.3% for 1973.

NET EARNINGS (Thousands)					
QUARTER	1974	1973	% Gain		
First	\$ 3,469	\$ 2,878	20.5		
Second	9,709	6,976	39.2		
Third	9,681	7,727	25.3		
Fourth	6,877	5,747	19.7		
TOTAL	\$29,736	\$23,328	27.5		

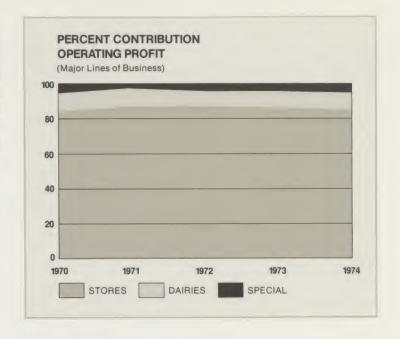
Net return on revenues for the year was 1.84% compared to 1.67% in 1973.



### **OPERATING PROFIT**

Substantial improvement in operating profit during 1974 resulted from increased sales volume, higher gross margins, innovative merchandising, continued emphasis on cost control programs and plant productivity, as well as the efficiencies realized through the three regional Distribution Centers.

The Stores Group contributed 85%, Dairies Group 10%, and Special Operations 5% of corporate operating profit.



### **EARNINGS PER SHARE**

Primary earnings per share increased 26.8% to \$1.75 from \$1.38 in 1973. Average shares outstanding were 17,003,346, compared with 16,887,443 shares the prior year.

Assuming full dilution, earnings per share of \$1.66 for the year rose 25.8% over 1973 earnings of \$1.32. Diluted earnings were computed on the basis of 18,529,165 average shares compared to 18,533,452 the previous year.

Comparative earnings per share by quarters, adjusted for 3% stock dividends in each year, were as follows:

	PRIMARY			-	DILUTE	D
			%			%
QUARTER	1974	1973	Gain	1974	1973	Gain
First	\$ .21	\$ .17	23.5	\$ .21	\$ .16	31.3
Second	.57	.41	39.0	.53	.40	32.5
Third	.57	.46	23.9	.53	.43	23.3
Fourth	.40	.34	17.6	.39	.33	18.2
TOTAL	\$1.75	\$1.38	26.8	\$1.66	\$1.32	25.8

Over the past ten years, Southland has had a compound annual growth rate of 16.8% in primary earnings per share and 16.2% in diluted earnings per share.



### CAPITAL INVESTMENTS

Capital investment for property, plant, and equipment during 1974 totaled \$64.5 million, the second largest expenditure in the Company's history. The capital outlay reflects a \$14.1 million reduction from 1973's record high investment of \$78.6 million, which included substantially all of the investment in the Tyler, Texas and Fredericksburg, Virginia Distribution Centers.

The Stores Group, Food Processing Centers, and expansion of the Orlando, Florida Distribution Center accounted for \$43.6 million, or 68% of the total addition to fixed assets. Capital investments for the Dairies Group were \$7.2 million, or 11%, and \$13.7 million, or 21%, for ice, chemical, truck leasing, and other facilities.

Investment in property increased a net of \$8.2 million, representing funds temporarily invested in facilities, principally store locations, which upon completion, the Company expects to mortgage or sell to outsiders for cash and lease back.

Southland places strong emphasis on ownership of fixed assets, although most of its retail store operations are conducted in leased facilities. The Company provides interim financing for capital expenditures while permanent financing of fixed assets is a combination of internal cash flow, debt securities, and real estate mortgages.

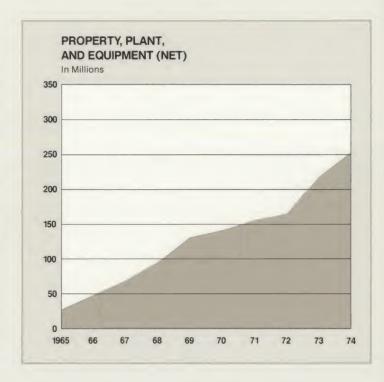
The record high rates on mortgage funds and sale and leaseback transactions made these outside sources of capital unattractive in 1974. The Company chose, therefore, to invest \$52.4 million of its cash reserves and funds provided by operations to finance 81% of 1974's capital expansion program. In addition, \$12.1 million in mortgage funds, from 1973 commitments at attractive rates, were utilized.

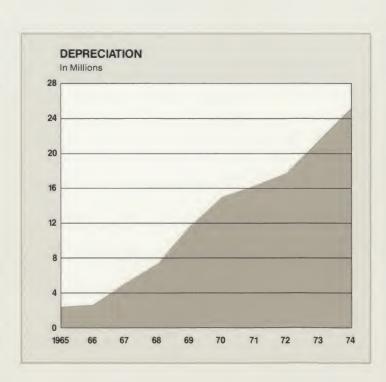
Southland has increased its investment in property, plant, and equipment from \$25.1 million in 1964 to \$253.9 million in 1974.

### DEPRECIATION

Depreciation and amortization expense for 1974 increased 17.2% to \$25.2 million, compared with \$21.5 million for the previous year.

At year-end, the Company's investment in property, plant, and equipment, less accumulated depreciation, was \$253.9 million compared to \$219.3 million a year earlier.





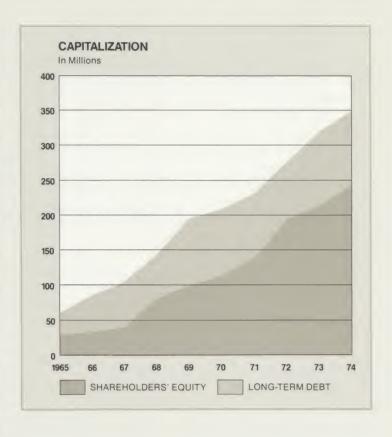
### CAPITALIZATION AND FINANCIAL POSITION

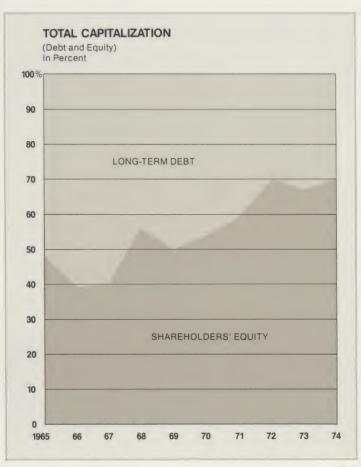
The Company's capital structure was strengthened by the conversion into stock of the outstanding \$6 million of 5% Convertible Subordinated Notes Due 1984.

At year-end, there were 17,428,343 shares of common stock outstanding compared with 16,396,039 shares a year earlier, an increase of 1,032,304 shares. The 6.3% increase is the result of issuing 293 shares upon the exercise of stock options, 495,103 shares in payment of a 3% stock dividend, and 536,908 shares for conversion of the 5% Convertible Subordinated Notes. At December 31, 1974, 1,094,937 shares were reserved for issuance upon conversion of notes and debentures and 162,888 shares for options outstanding under the employees' stock option plan.

Long-term debt in 1974 decreased \$1.9 million to \$105.6 million, representing 30.3% of total capital (long-term debt plus shareholders' equity) compared with 33.5% at the close of 1973 when long-term debt was \$107.5 million. During the past five years, long-term debt outstanding at year-end has averaged \$97.5 million and as a percentage of total capital has decreased from 46.2% in 1970 to 30.3% at year-end.

Working capital (current assets minus current liabilities) at the end of the year was \$89.8 million, compared to \$95.9 million in 1973. The ratio of current assets to current liabilities was 1.78:1 compared with 1.96:1 the previous year. The Company had no short-term debt outstanding during the year.





### **FOREIGN INVESTMENTS**

Southland's investment at the end of the year in United Kingdom affiliates was \$20.5 million, which does not include equity in undistributed earnings since acquisition. Of this amount, \$9.7 million was invested in Southland-Cavenham Limited and \$10.8 million in Cavenham-Southland Limited, representing a 50% ownership by Southland in each company.

Sales of Southland-Cavenham's 375 confectionery, tobacco, news stores for the 12-month period ended October 12, 1974, were \$52.5 million compared with \$47.3 million for the previous year and are not included in Southland's revenues.

Cavenham-Southland owns approximately 88% of Wright's Biscuits Ltd. and, through this ownership, directly or indirectly controls 100% of Moores Stores Ltd. Early in 1975, Cavenham-Southland purchased an additional 11% of Wright's and expects during the year to acquire the remaining 1%. The additional investment by Southland in connection with these transactions will be approximately \$300,000.

Wright's and Moores operate 660 retail grocery outlets in England, Scotland, and Wales under various trade names. Sales for the 12-month period ended October 12, 1974 were \$163.1 million compared with \$157.2 million for the previous year and are not included in Southland's revenues.

Inflationary pressures, economic uncertainties, and government restrictions on profit margins continue to hold down earnings of the two retail operations in the United Kingdom. For the fiscal year, Southland's equity in earnings of affiliates—stated net of interest on funds used to make the investments, amortization of the excess of investments over net assets acquired, and foreign and U.S. taxes—was \$611,310, compared with \$928,544 for 1973. Sales and earnings were converted to U.S. dollars at the average rates of exchange during the reported periods.

### **AREA LICENSES**

In December, 1973, a license agreement between Southland and Ito-Yokado Co., Ltd., an outstanding Japanese retailing company, was finalized and fees of \$750,000 were received at that time.

The Company's initial obligations to provide technical assistance and training to Ito-Yokado's personnel in the 7-Eleven operating system have now been completed. After deducting expenses and providing for income taxes, \$260,000 from the fees received were taken into earnings in 1974.

The first 7-Eleven store was opened in Tokyo in May, 1974, and at year-end, 15 stores were in operation. Ito-Yokado will operate some convenience stores but plans primarily to franchise the 7-Eleven operating system to select merchants from among Japan's 1.5 million existing small shopkeepers.

Southland, which is not required to invest capital in the Japanese venture, receives a royalty on the sales of each store. Royalties, which were minimal in 1974, will increase as Ito-Yokado's 7-Eleven store expansion program gains momentum.

Since 1968, Southland has granted licenses to six companies for operation of convenience stores using the 7–Eleven system and name in certain areas of Arkansas, Iowa, Kansas, Kentucky, Michigan, Missouri, Nebraska, Oklahoma, Pennsylvania, Texas, and West Virginia. At the end of 1974, these companies operated or franchised 129 stores compared with 96 the prior year. Although the Company receives a royalty based on the sales volume of the stores, income from these licenses has not been significant.

Sales of the stores operated or franchised under these license agreements are not included in Southland's revenues.

### PROFIT SHARING AND PENSION PLANS

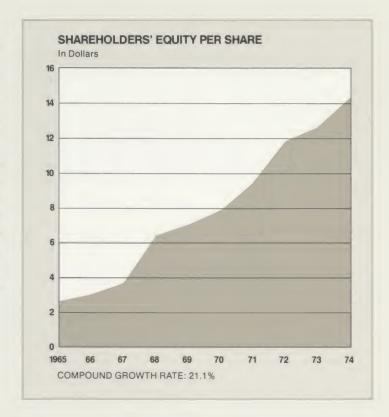
The Company contributes to The Southland Corporation Employees' Savings and Profit Sharing Plan, established in 1949, and to various union pension plans. Eligible employees have the option of joining Southland's voluntary contributory plan. Company contributions to this fully funded, trustee-administered plan are based on pre-tax earnings. All required contributions to union pension plans have been made.

### SHAREHOLDERS' EQUITY

Shareholders' equity rose to \$243.3 million at year-end, compared with \$213.4 million a year earlier, reflecting a compound annual growth rate over the past ten years of 26.8%. Book value per share, based on the average number of shares outstanding, increased 13.2% to \$14.31 compared with \$12.64 at the close of 1973.

During 1974, the \$6 million of 5% Convertible Subordinated Notes Due 1984 outstanding on December 31, 1973, were converted into shareholders' equity. Return on 1974's beginning shareholders' equity (net earnings divided by equity) increased to 13.9%, compared to 12% for the previous year.

There were 9,351 shareholders of record at the end of 1974.



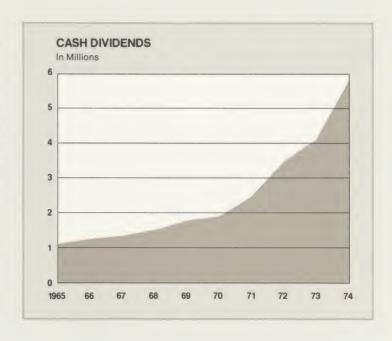
### DIVIDENDS

The annual cash dividend rate was increased 33.3% during the year to 40 cents from 30 cents per share. The new quarterly rate of 10 cents a share was paid beginning September 20, 1974. Total cash dividends paid during the year were \$5,834,440, 19.6% of net earnings, compared with \$4,095,714 or 17.6% of net earnings for 1973. The Company has paid cash dividends each year since 1957 and during that time has increased the dividend rate nine times.

In addition, a 3% stock dividend of 495,103 shares was issued in November, 1974. Southland has declared stock dividends or stock splits each year, except 1964, since 1958.

A 100 share investment at the time of the Company's incorporation in Texas in 1961 would represent 1,319 shares as of December 31, 1974.

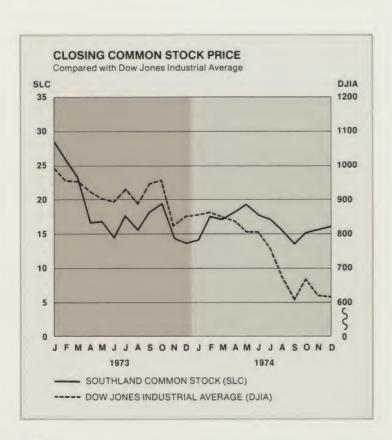
DIVIDENDS PAID PER COM	MON SHARE	
CASH:		
QUARTER	1974	1973
First	\$.071/2	\$.06
Second	.071/2	.06
Third	.10	.06
Fourth	.10	.071/2
TOTAL	\$.35	\$.251/2
STOCK:	3%	3%



### MARKET DATA

The Company's stock is listed on the New York Stock Exchange and traded under the symbol **SLC**. The following information has been adjusted for 3% stock dividends in each year, and the price/earnings ratios are based upon the primary earnings per share reported for the four preceding quarters.

SOUTHLAND COMMON STOCK						
	PRICE RANGE		EAR	RICE/ NINGS RATIO		
	High	Low	High	Low		
1973						
First Quarter	30%	21 1/8	24	18		
Second Quarter	23 1/8	13 %	19	11		
Third Quarter	191/4	13%	15	10		
Fourth Quarter	221/8	121/8	17	9		
1974						
First Quarter	181/4	121/8	13	9		
Second Quarter	21 3/8	17	15	12		
Third Quarter	191/4	121/8	12	8		
Fourth Quarter	171/8	131/2	11	8		





### **STATEMENT OF CONSOLIDATED EARNINGS (Thousands)**

The Southland Corporation and Subsidiaries

				Years ended	December 31
	1970	1971	1972	1973	1974
Revenues:					
Net sales (Note A)	\$985,297	\$1,084,573	\$1,226,189	\$1,393,622	\$1,609,257
Other income	1,283	534	2,161	2,869	3,868
	986,580	1,085,107	1,228,350	1,396,491	1,613,125
Cost of Sales and Expenses:					
Cost of goods sold, including buying and occupancy					
expenses	746,454	814,150	918,419	1,034,391	1,191,819
Selling, general and			,		.,,
administrative expenses	200,965	226,853	262,348	308,163	349,759
Interest expense	5,778	5,855	4,079	5,233	7,805
Contributions to Employees'					
Savings and Profit Sharing Plan	3,301	3,691	4,161	4,558	5,899
	956,498	1,050,549	1,189,007	1,352,345	1,555,282
<b>Earnings Before Income Taxes,</b>					
<b>Equity in Earnings of Affiliates</b>					
and Extraordinary Item	30,082	34,558	39,343	44,146	57,843
Income Taxes (Note B)	15,187	17,299	19,396	21,746	28,718
Earnings Before Equity in					
Earnings of Affiliates and					
Extraordinary Item	14,895	17,259	19,947	22,400	29,125
Equity in Earnings of Affiliates	_	41	419	928	611
Earnings Before Extraordinary Item	14,895	17,300	20,366	23,328	29,736
Extraordinary Item	_	497	_	_	_
Net Earnings	\$ 14,895	\$ 17,797	\$ 20,366	\$ 23,328	\$ 29,736

### NOTES:

- A. Net sales comprises sales of products and merchandise (including sales through stores operated by individual Southland franchisees) and other operating revenues which consist principally of truck rentals. Sales through stores operated by individual Southland franchisees are included in sales as follows: 1970—\$282,990,000; 1971—\$339,138,000; 1972—\$397,153,000; 1973—\$468,563,000; 1974—\$546,726,000.
- B. Income taxes provided for are summarized below: (Thousands)

1970	1971	1972	1973	1974
			-	
\$11,550	\$13,891	\$15,233	\$15,499	\$21,076
2,587	1,791	2,035	3,478	3,865
1,050	1,617	2,128	2,769	3,777
\$15,187	\$17,299	\$19,396	\$21,746	\$28,718
	\$11,550 2,587 1,050	\$11,550 \$13,891 2,587 1,791 1,050 1,617	\$11,550 \$13,891 \$15,233 2,587 1,791 2,035 1,050 1,617 2,128	\$11,550 \$13,891 \$15,233 \$15,499 2,587 1,791 2,035 3,478 1,050 1,617 2,128 2,769

### ANALYSIS OF THE SUMMARY OF EARNINGS

Southland's revenues have steadily increased each year during the past five years from \$986.6 million in 1970 to \$1.6 billion in 1974, a compound growth rate of 13%. With the exception of certain acquisitions in 1971, the upward trend is primarily the result of internal growth and expansion of the Company's major lines of business—Stores Group, Dairies Group, and Special Operations.

Revenues in 1974 increased \$217 million over 1973, up 15.5%, compared to a 13.7% gain in 1973 of \$168 million. Growth in revenues is principally the result of excellent gains in average sales volume per store, increases in selling prices required to offset higher merchandise costs, and the addition of new convenience stores. In 1973, the Company opened a net of 346 7-Eleven stores and in 1974 added a net of 370.

Other income in the 1972-1974 period rose from \$2.2 million to \$3.9 million, mainly as a result of interest income from cash investments, and in 1974 also included the fees received from the Japanese license agreement.

Gross margins have improved each year during the past five years. The enhancement of margins from 25.23% in 1972 to 26.12% in 1974 took place in an atmosphere of complex and unprecedented economic conditions, government controls, and increased operating costs. Expense increases have generally paralleled higher revenues.

Contributions to The Southland Corporation Employees' Savings and Profit Sharing Plan increased 9.5% in 1973 to \$4.6 million and 29.4% in 1974 to \$5.9 million based on increases in earnings before income taxes.

During the past three years, the Company has made a substantial investment in a three-center distribution system designed to meet the unique requirements of its convenience stores. The regional Center in Orlando, Florida was opened in 1971, and

the Tyler, Texas and Fredericksburg, Virginia Centers opened in 1973. The \$2.6 million increase in interest expense in 1974 over 1973 was due primarily to the mortgage financing of new 7-Eleven stores and the Tyler and Fredericksburg Centers.

Earnings before income taxes increased from \$30.1 million in 1970 to \$57.8 million in 1974, reflecting increased revenues and an upward trend in pretax profit margin from 3.05% to 3.59%. In 1973, pretax profit margin was 3.16% of revenues, compared to 3.2% in 1972. A substantial part of the profit margin gain to 3.59% in 1974 can be attributed to an improved product mix, reduced expenses, selling price adjustments, and the efficiencies realized through the Company's three regional Distribution Centers.

Equity in earnings of affiliates reflect the return on investments made by Southland between 1971 and 1973 in the United Kingdom. The substantial increase in 1973 earnings of affiliates over 1972 represented operating results of the two companies for a full 12-month period, while 1972 included earnings of one company for the full year and earnings from date of acquisition for the other. In 1974, economic conditions and government controls in the U.K. resulted in a 34.2% decline in earnings of affiliates.

The extraordinary item for 1971 was a gain on the sale of two Baskin-Robbins territorial franchises (net of income taxes of \$219,000).

Net earnings as a percent of revenues have improved each year during the last five years. In 1974, earnings were \$29.7 million, up 27.5% from 1973 earnings of \$23.3 million, a 14.5% increase over 1972. The improvement in net earnings has been consistent with the gains in earnings before taxes as the Company's effective income tax rate has remained relatively stable since 1970.

SUMMARY OF EARNINGS AND EXPENSE AS A PERCENT OF TOTAL REVENUES							
	1970	1971	1972	1973	1974		
Revenues	100.00%	100.00%	100.00%	100.00%	100.00%		
Cost of Sales	75.66	75.03	74.77	74.07	73.88		
Gross Margin	24.34	24.97	25.23	25.93	26.12		
Expenses	21.29	21.79	22.03	22.77	22.53		
Earnings Before Income Taxes	3.05	3.18	3.20	3.16	3.59		
Net Farnings	1.51%	1.64%	1.66%	1.67%	1.84%		

# STATEMENT OF CONSOLIDATED EARNINGS

The Southland Corporation and Subsidiaries

		Year	rend	ed December 31
		1974		1973
Revenues:				
Net sales (Note 1)	\$1	,609,257,112	\$1	,393,621,887
Other income		3,867,792		2,869,362
	1	,613,124,904	1	,396,491,249
Cost of Sales and Expenses:				
Cost of goods sold, including buying and occupancy expenses	1	,191,819,644	1	,034,390,536
Selling, general and administrative expenses		349,758,880		308,163,337
Interest expense		7,804,897		5,233,298
Contributions to Employees' Savings and Profit Sharing Plan		5,899,000		4,558,200
	1	,555,282,421	1	,352,345,371
Earnings Before Income Taxes and Equity in Earnings of				
Affiliates		57,842,483		44,145,878
Income Taxes (Note 10)		28,718,000		21,746,000
Earnings Before Equity in Earnings of Affiliates		29,124,483		22,399,878
Equity in Earnings of Affiliates (Note 2)		611,310		928,544
Net Earnings	\$	29,735,793	\$	23,328,422
Primary Earnings Per Share (Note 11)	\$	1.75	\$	1.38
Earnings Per Share—Assuming full dilution (Note 11)	\$	1.66	\$	1.32

See notes to financial statements.

# CONSOLIDATED BALANCE SHEET

The Southland Corporation and Subsidiaries

	December 31	December 31
	1974	1973
Current Assets:		
Cash	\$ 8,805,756	\$ 17,515,673
Cash investments	8,929,168	23,612,625
Accounts and notes receivable (Note 3)	53,744,967	46,688,259
Inventories (Note 1)	85,111,862	68,533,899
Deposits and prepaid expense	10,183,818	10,035,552
Investment in property (Note 4)	37,486,563	29,295,180
Total Current Assets	204,262,134	195,681,188
Investments in Affiliates (Notes 1 and 2)	24,587,140	23,576,610
Investments in Affiliates (Notes 1 and 2)  Other Assets	24,587,140 3,272,163	23,576,610

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31	December 31
	1974	1973
Current Liabilities:		
Long-term debt due within one year	\$ 7,577,148	\$ 7,608,418
Accounts payable and accrued expense	97,356,261	84,869,167
Income taxes	9,568,557	7,231,031
Total Current Liabilities	114,501,966	99,708,616
Deferred Credits (Note 7)	19,975,552	17,856,305
Reserves for Self Insurance	2,609,135	2,619,468
Long-Term Debt, due after one year (Note 6)	105,609,159	107,495,757
Contingencies and Commitments (Note 9)		
Shareholders' Equity (Notes 6 and 8):		
Common stock, \$.01 par value, authorized 40,000,000		
shares, issued and outstanding 17,428,343		
and 16,396,039 shares	174,283	163,960
Additional paid-in capital	175,472,195	162,545,280
Earnings retained in the business	67,642,970	50,735,332
	243,289,448	213,444,572
	\$485,985,260	\$441,124,718

See notes to financial statements.

## STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY The Southland Corporation and Subsidiaries

	Year ended December 31		
	1974	1973	
Common Stock:			
Balance January 1	\$ 163,960	\$ 159,174	
Exercise of stock options	3	68	
3% Stock dividend	4,951	4,732	
Conversion of notes	5,369	_	
Miscellaneous		(14	
Balance December 31	174,283	163,960	
Additional Paid-in Capital:			
Balance January 1	162,545,280	153,464,415	
Exercise of stock options	5,793	93,890	
3% Stock dividend	6,926,491	8,986,961	
Conversion of notes	5,994,631	_	
Miscellaneous	_	14	
Balance December 31	175,472,195	162,545,280	
Earnings Retained in the Business:	E0 725 220	40,578,638	
Balance January 1			
Net earnings for the year	29,735,793 80,471,125	23,328,422 63,907,060	
l age.	80,471,125	63,907,060	
Less: Cash dividends	5 924 440	4,095,714	
Cash paid in lieu of fractional shares	62,273		
3% Stock dividend	6,931,442	8,991,693	
	12,828,155	13,171,728	
Balance December 31	67,642,970	50,735,332	
Total Shareholders' Equity (Notes 6 and 8)	\$243,289,448	\$213,444,572	

See notes to financial statements.

# STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

The Southland Corporation and Subsidiaries

	Year ended December	
	1974	1973
Source of Funds:		
From operations:		
Net earnings	\$ 29,735,793	\$ 23,328,422
Depreciation	25,249,932	21,543,276
Deferred income taxes and other credits	2,119,247	2,235,920
Funds provided by operations	57,104,972	47,107,618
Long-term debt	12,060,992	33,286,870
Conversion of notes	6,000,000	_
Exercise of stock options	5,796	93,958
Decrease in investment in property	-	6,303,507
Increase in accounts payable, accruals and income tax	14,824,620	3,985,982
Property retirements and sales	4,669,263	3,049,49
Decrease in cash and cash investments	23,393,374	18,185,228
Other	_	4,285
	\$118,059,017	\$112,016,945
Application of Funds:		
Payment of long-term debt	\$ 7,978,860	\$ 6,983,218
Conversion of notes	6,000,000	-
Cash dividends	5,834,440	4,095,714
Cash paid in lieu of fractional shares	62,273	84,32
Investments in affiliates	1,010,530	4,007,707
Property, plant and equipment	64,520,810	78,584,675
Increase in accounts and notes receivable	7,056,708	663,520
Increase in inventories	16,577,963	14,786,540
Increase in investment in property	8,191,383	_
Increase in deposits and prepaid expense	148,266	1,936,416
Other	677,784	874,834
	\$118,059,017	\$112,016,945

## NOTES TO FINANCIAL STATEMENTS

The Southland Corporation and Subsidiaries Years ended December 31, 1974 and 1973

### 1. ACCOUNTING POLICIES:

### PRINCIPLES OF CONSOLIDATION:

The financial statements include the assets, liabilities, sales, costs and expenses of all subsidiaries. Operations of businesses acquired in transactions accounted for as purchases have been included in consolidated earnings since acquisition, while operations of businesses acquired in transactions accounted for as poolings of interest have been included in consolidated earnings for all periods. Intercompany transactions, including those with pooled companies prior to acquisition, have been eliminated.

Investments in United Kingdom and Mexico affiliates (substantially 50% owned) are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

### **FOREIGN OPERATIONS:**

Operations and earnings of foreign subsidiaries and affiliates are converted to U.S. dollars at the average rates of exchange during the reported periods. Property, plant and equipment accounts are converted at rates of exchange in effect when acquired. All other assets and liabilities are converted at the rates of exchange in effect at the close of the reported periods. Exchange rate adjustments are charged or credited to income. Such adjustments have not been material.

### INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out) or market, which, as to merchandise in stores, is determined by the retail inventory method. There is no significant effect arising from inflation, as the holding period for items in inventory is relatively short.

### PROPERTY, PLANT AND EQUIPMENT:

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining lives of the leases or the estimated useful lives of such improvements, whichever is the shorter. Maintenance and repairs are charged to income, whereas renewals and betterments are capitalized.

### REVENUES:

Net sales comprises sales of products and merchandise (including sales through stores operated by individual Southland franchisees) and other operating revenues which consist principally of truck rentals.

Sales through stores operated by other companies under exclusive United States area franchises and a foreign license agreement are not included. All fees or royalties arising from such agreements are included in other income. Initial fees are deferred until the services required under the agreements have been performed.

### 2. INVESTMENTS IN FOREIGN AFFILIATES:

The Company owns a 50% interest in each of two United Kingdom affiliates. Southland-Cavenham Limited, through subsidiaries which are wholly owned, operates 375 retail stores located in England and Scotland. Cavenham-Southland Limited, through subsidiaries that are substantially owned, operates 660 retail grocery stores located in England, Scotland, and Wales.

Equity in earnings of United Kingdom affiliates is included from the effective dates of acquisition. The year for determining earnings of these affiliates ends in October. Equity in such earnings is stated net of interest on Eurodollar borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired (straight-line over 40 years), foreign income taxes and a provision for United States federal income taxes.

## 3. ACCOUNTS AND NOTES RECEIVABLE:

	1974	1973
Trade	\$29,981,589	\$27,999,629
Franchisee	25,505,647	20,366,963
	55,487,236	48,366,592
Less allowance for doubtful accounts	1,742,269	1,678,333
	\$53,744,967	\$46,688,259

### 4. INVESTMENT IN PROPERTY:

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Working capital is used in the construction of new facilities, and the Company expects that cash will be realized within a 12-month period for such assets.

### 5. PROPERTY, PLANT AND EQUIPMENT:

	1974	1973
Cost:		
Land	\$ 31,658,957	\$ 24,440,534
Buildings and leaseholds	140,176,652	124,433,630
Machinery and equipment	163,439,181	140,905,439
Vehicles	28,113,415	24,615,913
Construction in process	10,783,475	3,745,457
	374,171,680	318,140,973
Less accumulated depreciation	120,307,857	98,878,765
	\$253,863,823	\$219,262,208

Approximately 32% of the net book value of property, plant and equipment is mortgaged.

### 6. LONG-TERM DEBT:

At December 31, 1974, long-term debt and amounts due within one year, which are included in current liabilities, were as follows:

	Amount outstanding	Current portion	included in long-term debt
\$	3,437,500	\$3,437,500	\$ _
	75,198,807	4,139,648	71,059,159
	4,550,000	_	4,550,000
	30,000,000	_	30,000,000
\$1	13,186,307	\$7,577,148	\$105,609,159
		outstanding \$ 3,437,500 75,198,807	outstanding         portion           \$ 3,437,500         \$3,437,500           75,198,807         4,139,648           4,550,000         —           30,000,000         —

The 5%% convertible notes and the 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into common stock of the Company. The present conversion ratios are 74.03 and 25.27 shares of stock, respectively, for each \$1,000 of principal. As to the 5%% convertible notes, the ratio decreases to 70.37 shares on December 1, 1977. At December 31, 1974, there were 1,094,937 shares of common stock reserved for the conversion of the notes and debentures. Principal payments on the 5%% convertible notes are due annually beginning in 1978, in an amount equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first required payment.

At December 31, 1974, the aggregate amount of long-term debt maturities is as follows for the years ended December 31: 1975—\$7,577,148; 1976—\$4,197,404; 1977—\$4,287,312; 1978—\$4,294,153; 1979—\$3,417,331.

The agreements under which the  $5\frac{3}{4}\%$  promissory notes and the  $5\frac{3}{4}\%$  convertible notes were issued place certain restrictions on the payment of cash dividends. Under the most restrictive of these provisions, retained earnings totaling \$58,885,000 at December 31, 1974 were not so restricted.

Other provisions of these agreements include requirements as to maintenance of working capital and net worth. The Company has complied with these requirements.

### 7. DEFERRED CREDITS:

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the terms of the leases or the useful lives of the assets, respectively.

Deferred federal income taxes result primarily from the use of accelerated depreciation methods for tax purposes.

	Investment credit	Deferred federal income taxes	Other	Total
Balance January 1, 1973	\$ 4,051,112	\$10,488,740	\$1,080,533	\$15,620,385
Provided for the year	3,076,500	401,500	86,259	3,564,259
Taken into income	(1,328,339)	_	_	(1,328,339)
Balance December 31, 1973	5,799,273	10,890,240	1,166,792	17,856,305
Provided for the year	2,660,000	1,205,000	60,475	3,925,475
Taken into income	(1,806,228)	_	-	(1,806,228)
Balance December 31, 1974	\$ 6,653,045	\$12,095,240	\$1,227,267	\$19,975,552

### 8. STOCK OPTIONS:

At December 31, 1974, under the employees' stock option plan which terminated during 1974, options for 162,888 shares of the Company's stock at prices ranging from \$16.53 to \$32.49 were outstanding, of which 112,546 shares were exercisable. During 1974, 302 shares were issued upon exercise of options at prices ranging from \$18.67 to \$22.50 and options for 27,213 shares expired or were canceled. During 1973, 7,212 shares were issued upon exercise of options at prices ranging from \$4.90 to \$26.93; options were granted for 49,364 shares at prices ranging from \$17.80 to \$18.61; and options for 25,459 shares expired or were canceled.

The above information has been adjusted for stock dividends and stock splits.

### 9. LEASE COMMITMENTS:

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 15 to 20 years, with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years.

Property and equipment rentals included in the Statement of Consolidated Earnings of \$54,868,000 in 1974 and \$51,146,000 in 1973 have been reduced by \$2,660,000 in 1974 and \$2,352,000 in 1973 for all rentals received from subleases. Minimum rentals on noncapitalized financing leases (as defined by the Securities and Exchange Commission) were \$38,641,000 in 1974 and \$34,655,000 in 1973. Contingent rentals, based on sales volumes, exceeded minimum rentals by \$1,242,000 in 1974 and \$673,000 in 1973. Substantially all contingent rentals in 1974 and 1973 were applicable to the noncapitalized financing leases.

Minimum rental commitments (principally real estate leases), exclusive of taxes and insurance payable by the Company, for noncancelable leases in effect at December 31, 1974, are approximately as follows for the periods specified:

	Minimum rental	Minimum	Net minimum	
Years	Noncapitalized financing leases	Other leases	rentals from subleases	rental commitments
1975	\$ 40,455,000	\$ 5,711,000	\$1,575,000	\$ 44,591,000
1976	37,430,000	4,538,000	1,186,000	40,782,000
1977	34,914,000	3,534,000	897,000	37,551,000
1978	32,114,000	2,592,000	718,000	33,988,000
1979	29,147,000	1,635,000	550,000	30,232,000
1980-1984	107,255,000	3,060,000	1,195,000	109,120,000
1985-1989	71,309,000	_	530,000	70,779,000
1990-1994	29,877,000	_	108,000	29,769,000
Thereafter	2,743,000	_	_	2,743,000
Total	\$385,244,000	\$21,070,000	\$6,759,000	\$399,555,000

The present value of minimum rental commitments for noncapitalized financing leases was \$263,654,000 at December 31, 1974 and \$241,308,000 at December 31, 1973, of which \$212,927,000 and \$196,165,000 were real estate leases and \$50,727,000 and \$45,143,000 were equipment leases. Interest rates, implicit in the terms of each lease at the time of entering into the leases, were used in computing present value and range from 5% to 8.5%. In 1974 the weighted average of such interest rates was 7.6%. At December 31, 1974 and at December 31, 1973, the then present value of rentals to be received from noncancelable subleases included above was \$1,533,000 and \$1,166,000, respectively.

If all noncapitalized financing leases were capitalized, net income would have been reduced by \$2,356,000 (14¢ per share) in 1974 and by \$2,083,000 (12¢ per share) in 1973. In making this computation, amortization of the present value, at the beginning of their respective terms, of noncapitalized financing leases (\$23,487,000 in 1974 and \$21,271,000 in 1973) and implicit interest (\$19,685,000 in 1974 and \$17,390,000 in 1973) were included.

### 10. INCOME TAXES:

Income taxes provided for are summarized below:

	1974	1973
Federal:		
Current	\$21,076,000	\$15,499,000
Deferred	3,865,000	3,478,000
State	3,777,000	2,769,000
	\$28,718,000	\$21,746,000

### 11. EARNINGS PER SHARE:

Primary earnings per share are based upon the average number of shares outstanding during each year after giving effect to subsequent stock dividends.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates at the earliest possible dates (related interest requirements eliminated) and (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds.

### TOUCHE ROSS & CO.

Board of Directors and Shareholders The Southland Corporation Dallas, Texas 2001 BRYAN TOWER, SUITE 2400 DALLAS, TEXAS 75201

We have examined the consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1974 and 1973, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Dallas, Texas February 17, 1975 Touche Ros & Co.

Certified Public Accountants



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P. O. Box 719 — Dallas, Texas 75221